

hours after your Maryland tax return is processed. It will happen that fast even if you wait until the April 15 deadline to file electronically.

Can I file my Maryland income tax return by telephone?

Maryland is once again allowing taxpayers to telefile their federal and Maryland tax returns, if the taxpayers received a federal TeleFile tax booklet and a Maryland TeleFile tax booklet. This voluntary service essentially allows eligible taxpayers to start the electronic filing process with a single phone call.

Can I pay my tax by direct debit?

Yes. If you file electronically, you can choose to have your balance due automatically withdrawn from your savings or checking account with the Comptroller's electronic funds withdrawal (direct debit) service. You can choose the date you want the amount withdrawn, up to the April 15 filing deadline. After April 15, the funds will be withdrawn automatically after the electronic return is accepted. Partial payments will not be accepted.

Can I pay my tax with a credit card?

Yes. You can pay your Maryland tax due amount with a credit card, using American Express, Discover, MasterCard or VISA.

What's new with Maryland's pension exclusion?

Maryland's maximum pension exclusion has been increased from \$19,900 to \$20,700 for tax year 2004. See the worksheet in Instruction 13 on page 5 of the state tax booklet. When you complete this worksheet, simply enter the exclusion on line 11 of Maryland Form 502.

What should I remember about personal exemption amounts?

The personal exemption amount is \$2,400 for tax year 2004 – the same as last year. If you or your spouse is 65 or older or blind, you may be eligible for an extra \$1,000 personal exemption in addition to the regular \$2,400 exemption.

What else should I look for?

The two-income married couple subtraction on line 16 of Form 502 applies to pension income, as well as wages, interest, dividends and business income. Married couples filing a joint return, when both have taxable income, may subtract up to \$1,200 or the income of the spouse with the lower income, whichever is less. A worksheet is included in Instruction 13 of the state tax booklet to help you calculate the subtraction.

Does Maryland tax Social Security benefits?

No. If you are affected by the federal tax on Social Security and/or Railroad Retirement benefits, you can continue to exempt those benefits from state tax. Enter on line 12 of Maryland Form 502 all Social Security and/or Railroad Retirement benefits that were taxable on your federal return and included on line 1 of Maryland Form 502.

Where can I get help?

- Internet: You can find helpful information, download state tax forms and even file electronically for free when you visit the Comptroller's Web site at www.marylandtaxes.com. You can also E-mail your state tax questions to taxhelp@comp.state.md.us.
- Office visit: Personal assistance is available at the Comptroller's 12 taxpayer service offices located throughout Maryland. State tax officials will be happy to answer any questions and they'll even complete your Maryland return for you free of charge if you bring along a completed copy of your federal return and all W-2 statements. The offices are open 8 a.m. to 5 p.m. weekdays.
- Telephone: You can call 410-260-7980 from Central Maryland or 1-800-MD TAXES (1-800-638-2937) from elsewhere for free state tax help. Telephone assistance will be available on these lines 8 a.m. to 9 p.m. weekdays from January 18 through April 15, 2005.

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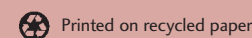
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Retiree News & NOTES



STATE RETIREMENT
and PENSION SYSTEM
of MARYLAND

WINTER 2005
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A Newsletter for Retirees from the State Retirement & Pension System of Maryland

Maryland tax tips for retirees

COMPLETING YOUR MARYLAND INCOME TAXES doesn't have to be confusing. Answers to the questions most frequently asked by Maryland retirees are provided below, courtesy of the tax experts at the Maryland State Comptroller's Office.

Residents of other states should contact their appropriate tax authority for filing information.

Should I file electronically?

More and more people file their federal and state taxes electronically every year. It's a convenient, safe and easy way to get your tax refund fast – as opposed to waiting weeks after filing paper tax forms. You have three methods to choose from to file your Maryland tax return electronically. You can:

- File online for free from the State Comptroller's Web site at www.marylandtaxes.com,
- File electronically from your personal computer, using a variety of commercial software,

or

- Ask a commercial tax preparer to file electronically for you.

How fast can I get my refund?

If you select direct deposit, your refund will be deposited directly into your bank account within 48

See Maryland tax tips, page 4

Dear Retiree:

A POSITIVE INVESTMENT ENVIRONMENT CONTINUED in the financial markets for fiscal year ending June 30, 2004. Total investment return of the Maryland Retirement and Pension System (SRPS) was 16.2% compared with 3.2% for fiscal 2003. Total fund assets increased from \$26.7 billion in 2003 to \$30.1 billion at the close of fiscal 2004, for a gain of \$3.4 billion.

We are pleased also to report that for the period the SRPS portfolio ranking, as determined by the Trust Universal Comparison Report (TUCS), improved from the 75th percentile to 46th percentile reflecting the Agency's strong performance relative to its peers across the county.

The Board has worked diligently to achieve investment performance through the implementation of a structured, yet flexible strategic policy. This will continue to be a team effort with the Board, professional staff and consultants all having key roles in the process.

The Agency's annual allocation study, currently underway, will redefine the proportion of stocks, bonds, private equity and real estate to be held in the portfolio for the purpose of better managing risk and volatility. Long term analysis shows that 90 percent of the investment return results from having the proper asset allocation mix in place.

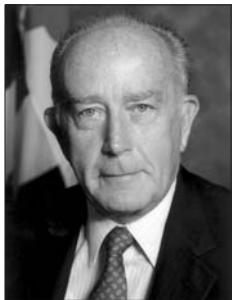
During the fiscal year, we welcomed the addition to the Board of Trustees of John W. Douglass and Sheila Hill elected by state employees, and gubernatorial appointments, F. Patrick Hughes and James M. Harkins. Art Caple, who served as a Trustee with loyalty and professionalism for 20 years, passed away on May 22, 2004. He will be greatly missed.

Your support and participation are greatly appreciated.

Sincerely,

William Donald Schaefer
Chairman

Nancy K. Kopp
Vice Chairman



William Donald Schaefer



Nancy K. Kopp

System concludes fiscal year with exceptional investment growth

THE STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND experienced strong investment returns of 16.2% in fiscal year 2004, boosting the market value of System assets to \$30.17 billion to pay benefits for current and future retirees.

Please review the following article for a summary of the System's activities for the year ending June 30, 2004. For more detailed information, the System's comprehensive annual financial report is available online at www.sra.state.md.us.

SYSTEM FINANCES

The System is responsible for properly administering the retirement, disability and death benefits for its members and retirees. The System's overall funding objective is to accumulate sufficient assets over time to meet these long-term benefit obligations as they become due.

Revenues

During fiscal year 2004, investment earnings were \$4.2 billion, while revenues from employer and member contributions were \$627 million and \$204 million, respectively.

REVENUES

Employer Contributions	
2004	\$627 million
2003	\$601 million
Employee Contributions	
2004	\$204 million
2003	\$208 million
Net Investment Income	
2004	\$4.2 billion
2003	\$757 million

For fiscal year 2004, member contribution rates remained unchanged, while employer rates varied depending on the System.

Expenses

Retirement allowances paid to retirees and beneficiaries totaled \$1.57 billion in fiscal year 2004. Another \$11.9 million was paid to members and withdrawing employers as the result of employment terminations, system transfers or withdrawal. Expenses for management of the investment portfolio and administration of the System were \$69 million and \$17 million, respectively.

EXPENSES

Benefit Payments	
2004	\$1.6 billion
2003	\$1.5 billion
Refunds	
2004	\$12 million
2003	\$16 million

The System remains financially strong and ahead of schedule with regard to its long-term funding goals.

Funded Status

As of June 30, 2004, the System's actuarial accrued liability was \$36.3 billion. With the actuarial value of assets accumulated to pay the liability at \$33.5 billion, the System now stands at 92.18% funded. The System remains financially strong and ahead of schedule with regard to its long-term funding goals.

INVESTMENTS

The fund continued the strong investment gains as experienced in the latter part of fiscal year 2003 with an exceptional return of 16.2% during fiscal year 2004.

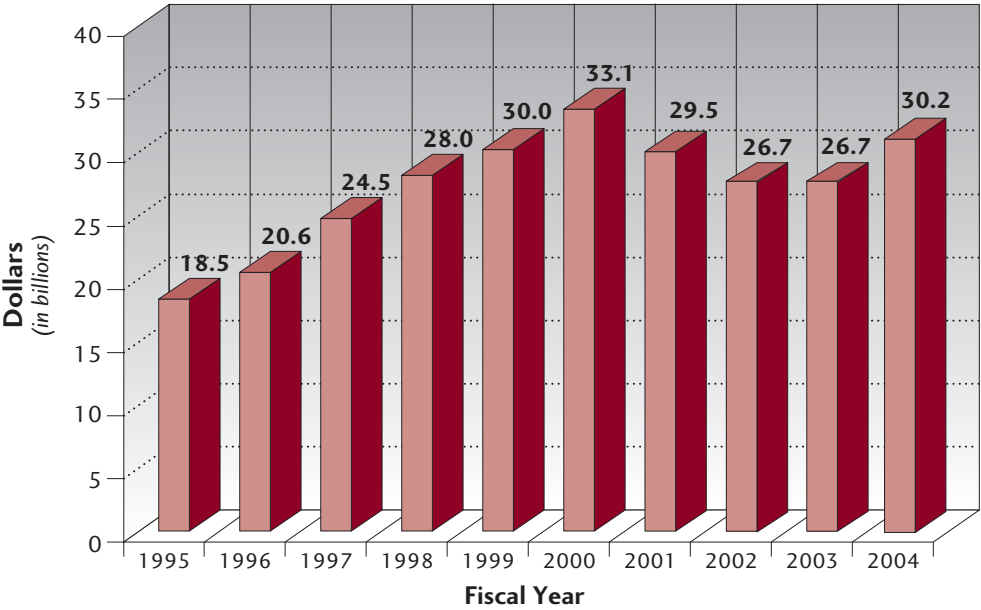
Annualized returns for the three, five, and 10-year periods ending June 30 were 3.5%, 2.3% and 8.2%, respectively. The market

value of System assets increased from \$26.7 billion on June 30, 2003 to \$30.17 billion on June 30, 2004. The System's equity investments returned 23.1%, with U.S. equities returning 21.6% and international equities returning 28.6%. The System's fixed income investments returned 1.6%, and real estate returned 20.4%. Under the experienced direction of its Board of Trustees, the System plans to continue following its steady course toward maximizing investment returns while maintaining an acceptable level of risk.

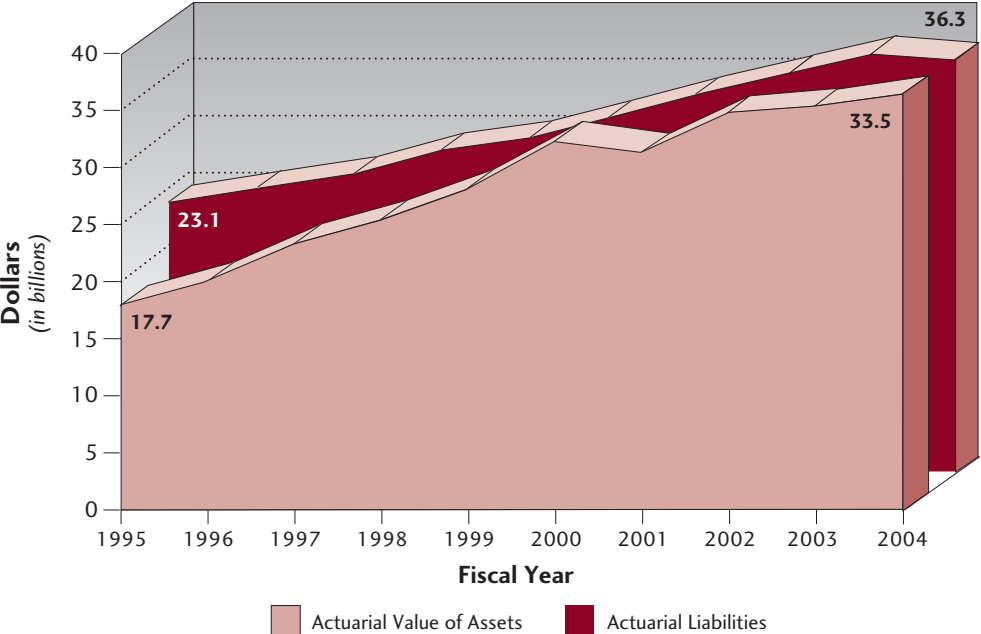
MEMBERSHIP

The System's rolls included 185,861 active members as of June 30, 2004, a decrease of 4,160 members from the previous year. The System also served 94,880 retirees and beneficiaries at the end of fiscal year 2004, an increase of 4,077 over the previous year. From June 30, 2003 to June 30, 2004, the number of former members who are eligible for a future benefit (i.e., vested members) increased by 1,338 to a total of 46,911.

TEN-YEAR GROWTH OF INVESTMENT PORTFOLIO



TEN-YEAR HISTORY OF FUNDING PROGRESS



FOR MORE INFORMATION ...

The System's Comprehensive Annual Financial Report for fiscal year 2004 is available in its entirety online. Visit the State Retirement Agency Web site at www.sra.state.md.us to access a printable version of the report.